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U.S. Business Enterprises Acquired or Established by Foreign Direct Investors in 1981

FOREIGN direct investors, either directly or through their U.S. affiliates, made outlays of $19.2 billion to acquire or establish 875 U.S. business enterprises in 1981, according to the preliminary results of a recent BEA survey.[1] Total assets of the U.S. businesses acquired or established were $77.3 billion.

Acquisitions accounted for 37 percent of the investments, but for 87 percent of investment outlays (table 1). The 875 investments were made by 990 investors—630 foreign direct investors and 360 U.S. affiliates. (The number of investors was larger than the number of investments because more than one investor participated in several of the investments.) U.S. affiliates accounted for more than three-fourths of total outlays.

Investment outlays were 58 percent higher in 1981 than in 1980, but the number of investments fell 53 percent.[2] The higher outlays reflected an increase in the number of large acquisitions—those involving outlays of $0.1 billion or more—and the much higher average cost of those acquisitions. In 1981, there were 29 such acquisitions; the 2 largest involved outlays of roughtly $2.5 billion each, and 7 others $0.5 billion or more each. Together, the 29 acquisitions accounted for more than two-thirds ($18.3 billion) of total outlays for the year. In contrast, in 1980, only 18 large acquisitions involved outlays of $0.1 billion or more; outlays for the largest were less than $0.8 billion, and for only 1 other were as much as $0.5 billion. Together, the 18 acquisitions accounted for about 30 percent ($3.8 billion) of total 1980 outlays.

The increase in outlays for large acquisitions occurred in a period of worsening general economic conditions in the United States and most other developed countries. Although it is difficult to generalize about reasons for the sharp increase, a number of factors, each common to several transactions, can be identified. In several cases, investors had sizable liquid assets to invest, either because their main line of business (e.g., petroleum extraction) had been profitable, or because they had recently sold operating assets. In other cases, investors took advantage of a U.S. company's need to obtain capital for expansion or modernization, or its desire to restructure assets by selling certain business lines. A few investments were made to acquire U.S. natural resources, mainly coal. Finally, several investors simply desired to gain an immediate and significant foothold in the large U.S. market.

The worsening in U.S. and foreign economic conditions may have slowed the pace of small- and medium-sized investments in 1981. In particular, investments in U.S. real estate, which, on average, are low in cost and often highly leveraged, were down substantially last year, both in numbers and outlays. The decline probably reflected persistently high U.S. interest rates, as well as the leveling off of U.S. real estate values.

It is difficult to place these acquisitions and establishments in the context of the U.S. economy. Data available on the operations of the acquired and established businesses and of all U.S. businesses are not strictly comparable. Also, results of comparisons may vary significantly depending on which items and industries are selected. For example, ignoring comparability problems, U.S. businesses acquired in 1981 accounted for roughly one-half of 1 perent of all-U.S. business employment in 1980; in mining, petroleum, and manufacturing, taken together, they accounted for more than 1 percent of employment, but for more than 2 percent of the total

NOTE.—This survey was conducted under the supervision of James L. Bomkamp, Chief, Direct Investment in the United States Branch, International Investment Division. Joseph F. Cherry was project leader for editing and processing the forms. Richard Mauery designed the computer programs for data retrieval and analysis.

Because of space limitations, only summary data for 1980 and 1981 are published in this article. Additional detail is available on request from: Bureau of Economic Analysis (BE-50, R.B.), U.S. Department of Commerce, Washington, D.C. 20230.

1. The survey covered (1) existing U.S. business enterprises in which foreign investors acquired directly, or through their U.S. affiliates, at least a 10 percent ownership interest in 1981, and (2) new U.S. business enterprises established in 1981 by foreign investors or their U.S. affiliates.

2. Year-to-year comparisons of these data should be made cautiously. The 1981 data are preliminary and will subsequently be revised up to reflect the inclusion of late reports. (The number of investments and the outlays for 1980 were each revised up about 20 percent from the preliminary totals published in the August 1981 SURVEY OF CURRENT BUSINESS.) Revised data for 1981, and preliminary data for 1982, will be published in spring 1983.

In addition, the smaller number of investments in 1981 partly reflected a change in reporting requirements for the BEA survey. In 1980, the survey covered investments in U.S. business enterprises that had total assets of over $500,000 or that owned at least 200 acres of U.S. land; for 1981, the exemption level for total assets was raised to $1,000,000. Partial reports, primarily for identification purposes, were required to be filed for investments not meeting these criteria. For 1980, 1,116 partially exempt investments were reported; total assets of the business enterprises acquired or established were less than $0.5 billion. For 1981, 1,854 partially exempt investments, with total assets of $0.4 billion, were reported; of these, only 241, with assets of $0.2 billion, would have been required to file complete reports if the exemption level had not been raised. Thus, the number of investments would have fallen sharply in 1981 even if the exemption level had remained unchanged.

assets of all U.S. businesses. The percentage for assets would have been significantly lower if the comparison could have been extended to include all industries. Several of the excluded industries, such as construction and services, are large domestically, but foreign investment in them is relatively small.[3] Also, it should be noted that in several of the 1981 acquisitions involving U.S. businesses with large assets and employment, foreign investors obtained only a minority equity interest. Unlike the data on investment outlays, which relate only to the equity interests obtained as a result of investment transactions, the data on assets and employment cover the total operations of the acquired U.S. businesses.

The next section of the article discusses investment transactions, primarily those involving the largest outlays. Information from outside sources—mainly press reports—supplements the data from the BEA survey by providing insight into the characteristics of, and, in some cases, the reasons for, large investments. The last section briefly presents data on the operations of the U.S. businesses acquired or established.

3. For acquired businesses, assets and employment data are for (or as of the end of) the full year preceding the year of acquisition. Data for all-U.S. employment are for 1980 and are from Table 6.7B, SURVEY, forthcoming July issue. Data for all-U.S. assets are as of the end of 1980 and are from U.S., Federal Trade Commission, division of Financial Statistics, *Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations, First Quarter 1981*, pp. 20 and 60.

Investment Transactions

Industry

By industry of the U.S. business enterprise acquired or established, $7.3 billion of total outlays was in manufacturing (table 2). Within manufacturing, the largest outlays—$2.8 billion—were in chemicals. Almost all of those outlays financed a two-stage transaction resulting in the acquisition of a minority interest in a major U.S. chemical company by the U.S. affiliate of a Canadian distiller through a Netherlands holding company. The U.S. affiliate had recently sold its U.S. oil and gas holdings and sought to use the proceeds to acquire a large U.S. petroleum company with substantial coal reserves. Its takeover bid for the petroleum company was contested by several other potential

Table 1.—Investments, Investors, and Investment Outlays

	Number			Investment outlays (millions of dollars)		
	1979	1980[r]	1981[p]	1979	1980[r]	1981[p]
Investments, total	1,588	1,659	875	15,317	12,172	19,240
Acquisitions	686	721	321	13,159	8,974	16,683
Establishments	902	938	554	2,158	3,198	2,558
Investors, total	1,770	1,803	998	15,317	12,172	19,240
Foreign direct investors	1,072	1,158	439	3,440	4,129	4,273
U.S. Affiliates	698	645	559	11,876	8,043	14,967

[r] Revised.
[p] Preliminary.

Table 2.—Investment Outlays by Industry of U.S. Business Enterprise

[Millions of dollars]

	1980[r]					1981[p]				
	Total	By type of investment		By type of investor		Total	By type of investment		By type of investor	
		Acquisitions	Establishments	Foreign direct investors	U.S. affiliates		Acquisitions	Establishments	Foreign direct investors	U.S. affiliates
All industries	12,172	8,974	3,198	4,129	8,043	19,240	16,683	2,558	4,273	14,967
Agriculture and forestry	318	109	209	221	97	255	102	153	133	122
Mining	(D)	144	(D)	59	(D)	(D)	(D)	(D)	(D)	(D)
Petroleum	783	715	68	81	702	1,684	1,590	94	281	1,403
Manufacturing	3,629	3,487	142	676	2,953	7,310	7,213	97	763	6,547
Food and kindred products	664	664	0	(D)	(D)	(D)	(D)	1	(D)	64
Paper and allied products	(D)	(D)	3	0	(D)	(D)	(D)	0	(D)	(D)
Chemicals and allied products	253	242	10	5	248	2,844	2,833	11	64	2,780
Industrial	176	(D)	(D)	0	176	2,569	2,569	0	6	2,563
Drugs	20	18	2	2	18	31	(D)	(D)	(D)	(D)
Other	57	(D)	(D)	1	56	194	(D)	(D)	(D)	(D)
Primary metal industries	189	(D)	(D)	(D)	(D)	2,318	(D)	(D)	(D)	(D)
Fabricated metal products	114	(D)	(D)	(D)	(D)	137	(D)	(D)	10	127
Machinery, except electrical	529	481	48	145	384	320	304	16	71	249
Electric and electronic equipment	339	332	7	34	305	266	261	5	28	238
Other	(D)	(D)	70	(D)	1,271	1,139	1,123	16	(D)	(D)
Wholesale trade	281	267	14	70	211	312	240	72	87	224
Motor vehicles and equipment	81	(D)	(D)	(D)	(D)	(D)	2	(D)	(D)	0
Metals and minerals	(D)	(D)	0	8	(D)	38	(D)	(D)	(D)	(D)
Farm product raw materials	(D)	(D)	0	(D)	(D)	(D)	(D)	0	6	(D)
Other	205	(D)	(D)	(D)	(D)	191	183	8	6	185
Retail trade	940	913	27	23	917	415	411	4	338	77
Banking	454	421	33	339	115	978	903	75	708	270
Finance, except banking	486	406	80	84	402	686	575	112	101	585
Insurance	516	498	18	104	412	(D)	(D)	(D)	(D)	(D)
Real estate and combined offices	3,483	1,715	1,768	2,297	1,186	2,088	461	1,627	1,201	886
Other	(D)	324	(D)	156	(D)	3,945	3,779	164	406	3,540

[r] Revised.
[p] Preliminary.
[D] Suppressed to avoid disclosure of data of individual companies.
[*] Less than $500,000.

buyers, including the U.S. chemical company, whose tender offer was ultimately successful. Subsequently, the U.S. affiliate exchanged shares in the petroleum company that it had acquired in its unsuccessful takeover bid for shares in the U.S. chemical company.[4]

Of the $2.3 billion of outlays in primary metals, roughly three-fourths was accounted for by the acquisition of a major U.S. copper firm by a U.S. affiliate of a Netherlands company owned by a British petroleum company. The U.S. affiliate had accumulated substantial liquid assets as a result of its first full year of production in Alaska. Other large acquisitions in primary metals were of the ferrous alloy operations of a diversified U.S. chemical company by the U.S. affiliate of a consortium of Norwegian firms; a U.S. cable manufacturing firm by a Canadian firm; and a minority interest in a major U.S. metals company by an Australian firm in which the U.S. company, in turn, had a minority interest.

In "other manufacturing," outlays were $1.1 billion. The largest acquisitions were of a U.S. cement manufacturer by the U.S. affiliate of a Canadian cement company, which was owned ultimately by a French company; the truck manufacturing operations of a U.S. company by the U.S. affiliate of a German auto company; and a medical instruments manufacturer by the U.S. affiliate of a British electronics firm.

Outlays in mining were mainly to acquire U.S. coal deposits. The largest acquisition was by the same U.S. petroleum affiliate that acquired the major U.S. copper firm.

In petroleum, two acquisitions accounted for more than two-thirds of the $1.7 billion of outlays. The first was the purchase of a portion of a U.S. petroleum company's oil and gas properties by the U.S. affiliate of a Netherlands holding company; the latter was, in turn, owned by a major

4. To avoid duplication in the investment outlays data, the two stages of this transaction—the initial acquisition of stock in the U.S. petroleum company and the subsequent exchange of that stock for stock in the U.S. chemical company—are treated as a single investment. Operating data, discussed at the end of this article, reflect the combined assets, sales, and employment of the U.S. petroleum and U.S. chemical companies.

Table 3.—Investment Outlays by Country of Foreign Parent and by Country of Ultimate Beneficial Owner [1]

[Millions of dollars]

	1980 r			1981 p		
	By country of foreign parent	By country of ultimate beneficial owner	Difference	By country of foreign parent	By country of ultimate beneficial owner	Difference
All countries	12,172	12,172	0	19,240	19,240	0
Developed countries	9,790	10,245	455	15,273	15,291	18
Canada	1,428	1,956	528	1,651	5,218	3,567
Europe	7,931	7,660	−271	12,447	8,313	−4,134
European Communities (9)	7,440	6,940	−500	11,871	7,585	−4,286
Belgium and Luxembourg	87	99	13	(D)	133	(D)
France	564	580	16	335	683	348
Germany	1,403	1,424	21	918	976	58
Italy	17	97	80	(D)	35	(D)
Netherlands	2,473	1,650	−824	7,894	452	−7,442
Denmark and Ireland	0	5	5	30	30	0
United Kingdom	2,878	3,066	188	2,727	5,325	2,598
Other Europe	491	720	229	577	778	201
Sweden	95	99	4	111	111	0
Switzerland	338	459	121	184	242	58
Other	37	141	104	282	425	143
Japan	399	586	187	(D)	516	(D)
Australia, New Zealand, and South Africa	32	33	1	(D)	1,350	(D)
Developing countries	2,382	1,922	−460	3,867	3,847	−20
Latin America	2,134	1,313	−821	1,093	602	−491
Panama	80	130	50	24	65	41
Bahamas	49	66	17	(D)	(D)	(D)
Bermuda and British Islands, Caribbean	319	164	−155	110	26	−84
Netherlands Antilles	1,618	784	−834	907	385	−522
Other	68	169	101	(D)	(D)	(D)
Other developing	248	609	361	2,774	3,245	471
Israel	(D)	25	(D)	(*)	1	1
Other Middle East	123	327	204	2,731	3,615	884
Other Africa, Asia, and Pacific	(D)	257	(D)	43	229	186
United States	0	5	5	0	2	2
Addenda:						
OPEC	136	0	−136	2,737	3,012	275
European Communities (10)				11,871	7,546	−4,325

r Revised.
p Preliminary.
* Less than $500,000.
D Suppressed to avoid disclosure of data of individual companies.
1. The foreign parent is the first foreign person in the ownership chain of the acquired or established U.S. business enterprise. The ultimate beneficial owner is that person in the ownership chain of the acquired or established U.S. business enterprise, beginning with the foreign parent, that is not owned more than 50 percent by another person. Where more than one investor participated in a given investment, each investor, and each investor's outlays, are classified by the country of each individual foreign parent or by each individual ultimate beneficial owner.

Canadian distiller (not the same one involved in the acquisition in chemicals, mentioned above). The second was the acquisition of a U.S. petroleum company by an Australian company's U.S. affiliate; the assets of the acquired company were mainly in Australia.

In banking, more than one-half of the $1.0 billion of outlays was for the acquisition of the 12th largest U.S. bank by a British bank. By the acquisition, the British bank broadened its U.S. business and acquired substantial dollar-denominated assets; the U.S. bank, headquartered in California, strengthened itself both domestically and internationally to compete more effectively with the major international banks. Several smaller U.S. banks, mainly located in the Far West, were also acquired. In finance, except banking, most of the $0.7 billion of outlays financed the acquisition of a large U.S. securities firm by an international commodity trading company.

Roughly one-half of all investments, but only 10 percent of outlays, in 1981 were in real estate. Most of these investments were purchases of small parcels of U.S. land. The two largest investments were by a Canadian real estate development company through a U.S. affiliate of its Netherlands holding company. One was to acquire the real estate assets of a U.S. firm, including property in San Francisco's business district; the other was to acquire land in southern California. Another Canadian firm acquired a minority interest in a major U.S. development company.

Of the $3.9 billion of outlays in "other industries," about two-thirds financed the acquisition—one of the year's two largest—of a U.S. construction and oil and gas field services firm. The acquisition was made by the U.S. affiliate of a State-owned Middle Eastern company, and was by far the largest equity investment in a U.S. company by an OPEC member to date. This acquisition provided the State entry into U.S. downstream activities, and provided the U.S. firm cash for expansion. In another large transaction in "other industries," a British conglomerate acquired the international hotel operations of a U.S. airline. The airline sold its profitable hotel operations to raise funds to support its airline business.

Country

In table 3, the distribution of outlays classified by country of foreign parent is compared with that by coun-

Table 4.—Total Assets, Sales, and Employment of U.S. Business Enterprises Acquired or Established in 1980 and 1981, by Industry of U.S. Business Enterprise [1]

[Millions of dollars or number]

	1980r							1981p						
	Total assets of all U.S. business enterprises acquired or established	U.S. business enterprises acquired			U.S. business enterprises established			Total assets of all U.S. business enterprises acquired or established	U.S. business enterprises acquired			U.S. business enterprises established		
		Total assets	Sales [2]	Number of employees	Total assets	Sales [2]	Number of employees		Total assets	Sales [2]	Number of employees	Total assets	Sales [2]	Number of employees
All industries	49,694	42,591	22,626	279,468	7,103	1,524	13,022	77,327	71,407	44,351	393,476	5,920	846	6,128
Agriculture and forestry	354	85	7	78	269	9	129	295	111	(D)	(D)	184	48	458
Mining	(D)	181	144	1,115	(D)	(D)	(D)	2,621	(D)	1,147	11,394	(D)	5	(D)
Petroleum	741	611	(D)	4,699	130	14	77	1,914	1,744	796	1,981	170	6	7
Manufacturing	6,942	6,609	11,276	142,851	333	392	2,965	28,340	28,209	83,857	285,425	132	181	1,390
Food and kindred products	501	501	1,075	9,872	0	0	0	58	(D)	137	1,389	(D)	(D)	(D)
Paper and allied products	(D)	(D)	(D)	(D)	(D)	0	(D)	(D)	(D)	(D)	(D)	0	0	0
Chemicals and allied products	144	140	268	2,846	4	(D)	(D)	(D)	(D)	(D)	(D)	(D)	(D)	(D)
Industrial	80	80	169	1,190	(*)	0	0	(D)	(D)	(D)	(D)	0	0	0
Drugs	21	18	30	266	3	(D)	(D)	79	75	72	975	4	(D)	(D)
Other	43	42	75	858	1	1	(D)	131	(D)	222	1,773	(D)	(D)	(D)
Primary metal industries	319	(D)	627	6,327	(D)	0	0	(D)	(D)	4,216	43,216	36	23	(D)
Fabricated metal products	171	147	262	4,350	25	(D)	358	182	(D)	370	5,183	(D)	(D)	(D)
Machinery, except electrical	1,218	1,135	1,151	16,715	83	(D)	(D)	1,832	1,813	1,653	27,072	20	29	482
Electric and electronic equipment	(D)	822	488	10,290	(D)	(D)	297	851	846	527	18,352	5	(D)	(D)
Other	3,431	3,243	(D)	(D)	187	187	1,506	1,500	1,474	2,041	25,757	26	25	284
Wholesale trade	967	907	2,116	14,266	59	161	257	660	384	875	4,771	276	165	830
Motor vehicles and equipment	132	(D)	(D)	461	(D)	(D)	(D)	(D)	(D)	(D)	(D)	(D)	(D)	(D)
Metals and minerals	(D)	(D)	(D)	(D)	0	0	0	323	(D)	283	(D)	(D)	(D)	(D)
Farm product raw materials	10	10	55	(D)	0	0	0	5	5	(D)	(D)	0	0	0
Other	(D)	730	1,885	13,061	(D)	(D)	(D)	(D)	283	593	2,231	(D)	(D)	(D)
Retail trade	1,179	1,099	2,375	62,153	80	61	(D)	1,565	(D)	2,537	44,061	(D)	25	262
Banking	20,418	19,237	1,716	13,963	1,181	36	238	22,938	21,193	2,229	18,132	1,745	(D)	182
Finance, except banking	3,612	3,200	1,161	10,729	412	99	90	13,082	12,604	1,261	2,333	478	28	20
Insurance	1,587	1,409	479	5,167	178	(D)	0	633	(D)	111	628	(D)	(D)	(D)
Real estate and combined offices	5,540	3,071	642	2,962	2,469	140	375	3,383	1,125	317	3,788	2,258	289	423
Other	(D)	1,169	(D)	21,520	(D)	(D)	2,699	1,897	1,710	(D)	(D)	187	88	3,783

r Revised.
p Preliminary.
* Less than $500,000.
D Suppressed to avoid disclosure of data of individual companies.

1. For acquired businesses, data are for or as of the end of the full year preceding the year of acquisition; for newly established businesses, data are for or as of the end of the first full year of operation.
2. Sales, or gross operating revenue, excluding sales taxes.

try of ultimate beneficial owner (UBO). The foreign parent is the first foreign person in the ownership chain of the acquired or established U.S. business; the UBO is the person in the ownership chain, beginning with the foreign parent, that is not owned more than 50 percent by another person. The country of the UBO may be the same as that of the foreign parent, a different foreign country, or the United States.[5] Investments for which the UBO and foreign parent countries differed accounted for 35 percent ($6.7 billion) of outlays in 1981, compared with 17 percent ($2.1 billion) in 1980

By country of foreign parent, 80 percent of total outlays were for U.S. businesses that had foreign parents in developed countries. Among developed countries, by far the largest amount of outlays—$7.9 billion—was associated with parents in the Netherlands. Among developing countries, outlays were largest for foreign parents in the Middle East and the Netherlands Antilles.

When 1981 outlays were classified by country of UBO, rather than by country of foreign parent, the Netherlands and the Netherlands Antilles had much lower totals. The differences were $7.4 billion for the Netherlands and $0.5 billion for the Netherlands Antilles. The UBO's primary advantage in holding their U.S. investments indirectly through these countries is minimization of U.S. withholding taxes on their U.S. affiliates' payments of dividends and interest. Other incentives may include avoidance of regulatory constraints and protection of privacy.

Outlays were significantly higher for UBO's than for foreign parents in several countries, especially Canada and the United Kingdom among developed countries, and OPEC countries in the Middle East among developing countries. Mainly because the U.S. construction and oil and gas field services company was acquired, UBO's in OPEC countries accounted for $3.0 billion of outlays, 16 percent of the global total.

Selected Operating Data

Total assets of all U.S. businesses acquired or established by foreign direct investors in 1981 were $77.3 billion, 56 percent higher than the comparable figure for 1980 (table 4). By industry of the U.S. business acquired or established, assets were highest in manufacturing ($28.3 billion), banking ($22.9 billion), and finance, except banking ($13.1 billion). Three acquired U.S. businesses—the major chemical company, the bank in California, and the investment firm—had by far the largest asset totals.

U.S. businesses acquired in 1981 had assets of $71.6 billion and sales of $44.4 billion; they employed 394,000 workers and owned 4.4 million acres of land. Sales and employment were much more heavily concentrated in manufacturing than were assets. Classified by primary use, three-fourths of the acreage owned by acquired U.S. businesses was in natural resources; most of the remainder was in agriculture or forestry.

Total assets of U.S. businesses established in 1981 were $5.7 billion, and sales were $0.8 billion. These businesses employed 6,000 workers and owned 0.3 million acres of land.

5. A UBO and its country were identified for 92 percent of outlays in 1980 and for virtually all outlays in 1981. Where the UBO could not be identified, the countries of the foreign parent and the UBO were assumed to be the same.